

**REPORT OF THE AUDIT OF THE  
SCOTT COUNTY  
SHERIFF'S SETTLEMENT - 2005 TAXES**

**April 18, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
SCOTT COUNTY  
SHERIFF'S SETTLEMENT - 2005 TAXES**

**April 18, 2006**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for Scott County Sheriff as of April 18, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$19,318,801 for the districts for 2005 taxes, retaining commissions of \$673,198 to operate the Sheriff's office. The Sheriff distributed taxes of \$18,610,728 to the districts for 2005 Taxes. Taxes of \$19,125 are due to the districts from the Sheriff and refunds of \$1,655 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff's Daily Checkout Sheets Should Be Reconciled To Daily Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Eliminate The Deficit In The 2005 Tax Account
- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Have A Written Agreement To Protect Deposits

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable George Lusby, Scott County Judge/Executive  
Honorable Bobby Hammons, Scott County Sheriff  
Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the Scott County Sheriff's Settlement - 2005 Taxes as of April 18, 2006. This tax settlement is the responsibility of the Scott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Scott County Sheriff's taxes charged, credited, and paid as of April 18, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable George Lusby, Scott County Judge/Executive  
Honorable Bobby Hammons, Scott County Sheriff  
Members of the Scott County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff's Daily Checkout Sheets Should Be Reconciled To Daily Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Eliminate The Deficit In The 2005 Tax Account
- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Have A Written Agreement To Protect Deposits

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
October 3, 2006



SCOTT COUNTY  
BOBBY HAMMONS, SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES

April 18, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,502,284	\$ 2,677,458	\$ 9,619,465	\$ 3,285,808
Tangible Personal Property	150,326	280,116	550,137	577,747
Intangible Personal Property				679,142
Increases Through Exonerations	64	114	408	135
Franchise Corporation	102,298	152,627	456,751	
Additional Billings	1,013	1,701	5,027	2,077
Limestone, Sand, and Mineral Reserves	419	747	2,682	885
Penalties	7,604	13,070	45,748	15,610
Adjusted to Sheriff's Receipt	(360)	(632)	(2,306)	(756)
Gross Chargeable to Sheriff	<u>1,763,648</u>	<u>3,125,201</u>	<u>10,677,912</u>	<u>4,560,648</u>
<u>Credits</u>				
Exonerations	2,074	3,565	12,287	4,686
Discounts	28,875	51,787	177,281	81,266
Delinquents:				
Real Estate	37,670	67,138	241,212	79,594
Tangible Personal Property	1,086	1,558	4,090	3,450
Intangible Personal Property				554
Uncollected Franchise	<u>1,470</u>	<u>2,233</u>	<u>6,732</u>	
Total Credits	<u>71,175</u>	<u>126,281</u>	<u>441,602</u>	<u>169,550</u>
Taxes Collected	1,692,473	2,998,920	10,236,310	4,391,098
Less: Commissions *	<u>72,218</u>	<u>127,454</u>	<u>286,617</u>	<u>186,909</u>
Taxes Due	1,620,255	2,871,466	9,949,693	4,204,189
Taxes Paid	1,617,248	2,857,934	9,932,925	4,202,621
Refunds (Current and Prior Year)	<u>1,592</u>	<u>2,751</u>	<u>9,839</u>	<u>3,223</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 1,415</u>	<u>** \$ 10,781</u>	<u>\$ 6,929</u>	<u>\$ (1,655)</u>

\* and \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

SCOTT COUNTY  
BOBBY HAMMONS, SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES  
April 18, 2006  
(Continued)

10% on	\$	10,000
4.25% on	\$	9,072,491
2.8% on	\$	10,236,310

\*\* Special Taxing Districts:

Library District	\$	9,941
Health District		649
Extension District		<u>191</u>
Due Districts	\$	<u><u>10,781</u></u>

SCOTT COUNTY  
NOTES TO FINANCIAL STATEMENT

April 18, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board of committee, and (c) an official record of the depository institution. These requirements were not met, as one of the Sheriff's two depository institutions did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

SCOTT COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 18, 2006  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of April 18, 2006, all deposits were adequately covered by FDIC insurance and pledged securities; however, the Sheriff did not obtain a properly executed collateral security agreement with one of his depository institutions.

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 27, 2005 through April 18, 2005.

Note 4. Interest Income

The Scott County Sheriff earned \$57,952 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of October 3, 2006, the Sheriff owed \$3,007 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Scott County Sheriff collected \$58,276 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of October 3, 2006, the Sheriff owed \$1,699 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Scott County Sheriff collected \$4,170 of advertising costs and \$3,375 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Deficit Balance

Based on available records, there was an \$18,767 deficit in the Sheriff's official tax account. This deficit results from undeposited 2005 tax receipts. A Schedule of Excess of Liabilities Over Assets is included in this report as a supplemental schedule.

SCOTT COUNTY  
BOBBY HAMMONS, SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

April 18, 2006

Assets

Cash in Bank (All Tax Accounts)	\$	227,654	
Deposits in Transit		66,793	
Receivables:			
Daily Receipts, Interest Earned, Other		7,435	
Refund Due - State		1,655	
		<hr/>	
Total Assets			\$ 303,537

Liabilities

Paid Obligations-			
Outstanding Checks	\$	76,342	
Other Taxing Districts-			
State		34,507	
County		15,891	
School		104,807	
Library		14,585	
Health		10,038	
Extension		3,439	
Refunds Due Taxpayers		7,458	
Tax Comissions Due Sheriff's Fee Account		3,606	
Interest Due Sheriff's Fee Account		610	
Advertising Fees Due Sheriff's Fee Account		1,055	
Advertising Costs Due Sheriff's Fee Account		4,120	
10% Add-On Fees Due Sheriff's Fee Account		17,002	
Deposit Error Correction - Sheriff's Fee Account		4,594	
		<hr/>	
Total Paid Obligations			298,054
Unpaid Obligations-			
Other Taxing Districts-			
County		1,415	
School		6,929	
Library		9,941	
Health		649	
Extension		191	
Tax Comissions Due Sheriff's Fee Account		327	
Tax Comissions Due School		92	
10% Add-On Fees Due Fee Account		1,699	
Interest Earned Due Fee Account		3,007	
		<hr/>	
Total Unpaid Obligations			<hr/> 24,250
Total Liabilities			<hr/> 322,304
Total Fund Deficit as of April 18, 2006			<hr/> <hr/> \$ (18,767)

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## COMMENTS AND RECOMMENDATIONS





SCOTT COUNTY  
BOBBY HAMMONS, SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of April 18, 2006

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

The Sheriff's Daily Checkout Sheets Should Be Reconciled To Daily Deposits

Test procedures conducted over daily receipts and deposits included the selection of thirty-six daily checkout sheets and corresponding deposits. Of the thirty-six days selected, only four daily checkout sheets agreed to the corresponding daily deposit. Technical Audit Bulletin 93-002, Section 4 requires the Sheriff to reconcile daily collections to daily deposits. We recommend the Sheriff complete and document this reconciliation of the daily checkout sheet to ensure the total collected on the daily checkout sheet agrees to the amount deposited.

*Sheriff's Response: We will make sure that the checkout sheet and deposits are the same and if not we will have a written explanation.*

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should compare daily bank deposits to the corresponding daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare monthly tax reports to the receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports.
- The Sheriff should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should require two signatures on all checks, with one being the Sheriff's.

*Sheriff's Response: We will consider the internal control recommendations.*

STATE LAWS AND REGULATIONS:

The Sheriff Should Eliminate The Deficit In The 2005 Tax Account

The Sheriff had a deficit of \$18,767 in his official tax account. We conducted extensive testing of the Sheriff's records and were unable to determine the exact cause of the deficit. We recommend the Sheriff deposit \$18,767 from personal funds into his official tax account so that all outstanding liabilities may be paid to close this account.

*Sheriff's Response: I have made all necessary deposits to satisfy all liabilities of the tax account.*

SCOTT COUNTY  
BOBBY HAMMONS, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of April 18, 2006  
(Continued)

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month

The Sheriff reported franchise and property tax collections on ten separate reports for 2005 collections. Our review of these reports indicated the Sheriff did not report and distribute tax collections in a timely manner for three of the ten reporting periods. KRS 134.300 requires the Sheriff to report and distribute money collected during a given month by the tenth of the month following the month in which it was collected. We recommend the Sheriff report and distribute all taxes in a timely manner as required by KRS 134.300.

*Sheriff's Response: Every effort will be made to correct this.*

The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institutions should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of April 18, 2006, the Sheriff had bank deposits of \$271,972; FDIC insurance of \$200,000; and collateral pledged or provided of \$266,772. Even though the Sheriff obtained sufficient collateral, there was no written agreement between the Sheriff and one of the depository institutions, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and, (c) an official record of the depository institution.

*Sheriff's Response: We made good on the written agreement as soon as it was discovered that we didn't have one.*

PRIOR YEAR:

None.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable George Lusby, Scott County Judge/Executive  
Honorable Bobby Hammons, Scott County Sheriff  
Members of the Scott County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Scott County Sheriff's Settlement - 2005 Taxes as of April 18, 2006, and have issued our report thereon dated October 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Scott County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff's Daily Checkout Sheets Should Be Reconciled To Daily Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.



Report On Internal Control  
Over Financial Reporting And On Compliance  
And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Scott County Sheriff's Settlement - 2005 Taxes as of April 18, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate The Deficit In The 2005 Tax Account
- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Have A Written Agreement To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
October 3, 2006

